



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Establish Proposed Rates and Set Public Hearing on September 21, 2005, to Hear Protests on Resolution Adopting Water Rate Increase

MEETING DATE: July 20, 2005

PREPARED BY: Public Works Director

RECOMMENDED ACTION: That the City Council establish proposed rates and set a public hearing on September 21, 2005, to hear protests on a resolution adopting a water rate increase.

BACKGROUND INFORMATION: For many years now, the City has been coping with the legal and technical issues surrounding PCE and TCE contamination in the Central City area. The net cost for these activities has been borne by the water fund until FY 04/05 in which approximately half was also advanced from the wastewater fund. This includes use of some of the funds collected for the purpose of infrastructure replacement. While the total and final cost of remediation is not precisely known, it has been reasonably estimated. The City must raise water rates in order to maintain the cash flow of the utility. Not doing so will place the General Fund at risk, thus jeopardizing public safety and other services provided by the General Fund.

The City recently retained the services of Bartle Wells Associates to analyze the water and wastewater funds and make recommendations regarding rates. The results of their work will be presented at the Shirtsleeve Session on Tuesday, July 19, 2005. However, one early conclusion they reached was that the rate increase should be applied to the water utility only. In reviewing the wastewater fund and examining existing bond covenants, they felt that including the wastewater fund in this program would result in rate increases higher than necessary for the PCE/TCE program in order to maintain coverage requirements, and it would complicate future financings in the wastewater utility, which will be necessary for improvements at the White Slough Water Pollution Control Facility.

Based on past Council actions and discussion and meetings between staff and Bartle Wells, the rate analysis is being done with the following assumptions and direction:

- The net amount of money for the PCE/TCE program (total costs minus third party recoveries) is \$45.7 million. This is an "all-in" cost that includes capital, operating, legal and regulatory oversight expenses for an estimated 30-year remediation time frame and also includes "repayment" of approximately \$12.2 million in past expenses advanced by the water and wastewater funds through FY 04/05. While the majority of these costs are directly for remediation efforts, a significant portion is related to settlement of claims which are considered confidential because revealing the amounts the City has set aside to settle remaining claims would compromise our ability to settle them; thus, a breakdown is not being provided.
- The above net cost is spread over 30 years based on anticipated cash flow requirements with the "repayment" starting in three years and spread over fifteen years. Given capital requirements for the remediation systems, the cash flow is heavily front-loaded.

APPROVED:


Blair King, City Manager

Establish Proposed Rates and Set Public Hearing on September 21, 2005 to Hear Protests on
Resolution Adopting Water Rate Increase

July 20, 2005

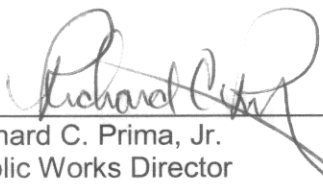
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- The water utility's General Fund contribution will be maintained at current levels; i.e., the rate increase will be revenue neutral to the General Fund.
- The analysis includes estimates of general operating cost increases and restoration of the infrastructure replacement program at previously contemplated levels. In addition, an allowance has been made for the cost of retrofitting water meters as required by State law. Provisions for minor annual increases based on the Consumer Price Index (as was recently done for the Water Utility) will significantly help maintain this level of service.
- The analysis to be presented will include alternative approaches to funding the PCE/TCE issue. One approach involves stepped increases with supplemental outside financing. While this will reduce the initial rate increases, financing costs over the long term will mean the increases will need to be in place longer. Another approach is to have a relatively higher initial increase to avoid financing and allow for rate reductions once the capital and other early costs are paid.
- The public will be notified under a Proposition 218 notice; property owners by direct mail and utility customers with a notice in the bill. This process provides for a majority protest by property owners in accordance with the State Constitution. The notice will include provisions for future increases based on the Consumer Price Index.

Bartle Wells will be at the Shirtsleeve Session, as well as at the Council meeting on July 20, to present the results of their analysis and make recommendations for Council consideration. Note that with the extended public notice time frame, staff and Bartle Wells will have time to evaluate and respond to public and Council questions.

FISCAL IMPACT: To be determined.

FUNDING AVAILABLE: Not applicable.


Richard C. Prima, Jr.
Public Works Director

RCP/pmf

**Proposition 218 Notification
NOTICE TO PROPERTY OWNERS OF PUBLIC HEARING
ON PROPOSED WATER RATE INCREASE**

Hearing Date & Time: Wednesday September 21, 2005 at 7:00 p.m. or as soon thereafter as the matter may be heard

Hearing Location: City of Lodi Council Chambers, at the Carnegie Forum
305 West Pine Street, Lodi, CA 95240

Why a Water Rate Increase is Needed

The groundwater supply for the City of Lodi has been contaminated by PCE/TCE, two chemical solvents determined by federal and state health and environmental agencies to be hazardous to public health. In response to the presence of these pollutants, the City began identifying the source of contamination and also began action to remove PCE/TCE from its groundwater supply. Additionally, the City took legal action against potentially responsible parties and began efforts to comply with the regulatory requirements of the state agencies with jurisdiction over the presence and remediation of PCE/TCE in the groundwater supply.

The City and its technical consultants estimate the net cost of remediation to be \$45.7 million. Included are capital, operations and maintenance, administrative and legal costs. From the finding of PCE/TCE in the groundwater supply to the present, the City incurred over \$12 million of remediation, legal and regulatory expenses. These expenses were paid from City Utility funds that must now be repaid and are included in the above total.

Hearing

Proposition 218 requires that the City provide a notice of the proposed rate schedule to all property owners forty-five (45) days prior to holding a public hearing. In order for the increase to "not take effect", a majority of the property owners (not renters) are required to file opposition to the increase.

Property owners may file a written and signed protest against the proposed increases with the City Clerk at or before the close of the public hearing. A protest must contain a description of the property owned sufficient to identify the property. (The address or assessor's parcel number shown on this mailing is sufficient.) If you own more than one parcel, you may file a single protest but it must identify each parcel you own. If the name on the written protest is not shown on the last equalized assessment roll of San Joaquin County as the owner of the property, the signer of the protest must also submit written evidence of ownership. At the hearing, Council shall hear all protests and tabulate the ballots. The ballots in this case are written protests against the increases.

The City Council will hold a public hearing on the proposed increases on Wednesday, September 21, 2005, at 7:00 p.m. or as soon thereafter as the matter may be heard, in the City Council Chambers at the Carnegie Forum, 305 West Pine Street, Lodi, California.

Written protests may be mailed to:
City of Lodi
Attn: City Clerk
P.O. Box 3006
Lodi, CA 95241-1910

Written protests may also be delivered in person to the City Clerk, 221 West Pine Street, Lodi, California, or at the public hearing.

Basis of Proposed Water Rate Increase

An independent financial firm developed a water rate that will fairly and equitably recover the projected cost of remediation and the payments due to other City funds for expenses incurred prior to the settlement. The increase is based on and was calculated using the projected cost of the remediation and the repayment of expenses incurred.

Impact of Proposed PCE/TCE Remediation Rate Increase

The proposed increases would be implemented in three phases beginning January 1, 2006. The proposed increases would initially add \$3.50 to the monthly water bill of a 3-bedroom home, (the largest customer group in Lodi) beginning January 1, 2006. Two subsequent increases in July 1, 2007 and July 1, 2008 would each add an additional \$3.50 to the monthly bill. The rate for other customer groups is proportionate to the ratios established in the City's existing rate structure. Proposed rates for each customer category are detailed in the Water Rates Table attached.

Water rates could also be adjusted each July 1 by the change in the Consumer Price Index as previously approved by Council action.

Dated: _____

Susan Blackston
CITY CLERK, City of Lodi

If you have questions or comments about the proposed water rate increases, you may:

Address the Council: Attend the Public Hearing on September 21, 2005

Telephone Public Works: 209-333-6706

Email: pwdept@lodi.gov

Write the City Clerk: P.O. Box 3006, Lodi, CA 95241-1910

To file a protest, please see the instructions above in this notice.

218 Notice Rate Table

City of Lodi Water Utility

Proposed Water Rates Fiscal Years 2005/06 - 2007/08

| Single-Family Residential | Current Rates Effective 5/1/2005 | | | | Rates Effective 1/1/2006 | | | | Rates Effective (1) 7/1/2006 | | | | Rates Effective (1) 7/1/2007 | | | |
|---|-------------------------------------|-------------|-------------|------------------|-------------------------------------|-------------|-------------|------------------|--------------------------------------|-------------|-------------|------------------|-------------------------------------|-------------|--------------|------------------|
| | Base | Infr. | PCE/ TCE | Monthly Total | Base | Infr. | PCE/ TCE | Monthly Total | Base | Infr. | PCE/ TCE | Monthly Total | Base | Infr. | PCE/ TCE | Monthly Total |
| 1 BR - House | 13.67 | 4.97 | 0.00 | 18.64 | 13.67 | 4.97 | 2.43 | 21.07 | 13.67 | 4.97 | 4.86 | 23.50 | 13.67 | 4.97 | 7.29 | 25.93 |
| 2 BR - House | 16.41 | 5.97 | 0.00 | 22.38 | 16.41 | 5.97 | 2.92 | 25.30 | 16.41 | 5.97 | 5.84 | 28.22 | 16.41 | 5.97 | 8.76 | 31.14 |
| 3 BR - House | 19.68 | 7.15 | 0.00 | 26.83 | 19.68 | 7.15 | 3.50 | 30.33 | 19.68 | 7.15 | 7.00 | 33.83 | 19.68 | 7.15 | 10.50 | 37.33 |
| 4 BR - House | 23.64 | 8.60 | 0.00 | 32.24 | 23.64 | 8.60 | 4.20 | 36.44 | 23.64 | 8.60 | 8.41 | 40.65 | 23.64 | 8.60 | 12.61 | 44.85 |
| 5 BR - House | 28.36 | 10.32 | 0.00 | 38.68 | 28.36 | 10.32 | 5.04 | 43.72 | 28.36 | 10.32 | 10.09 | 48.77 | 28.36 | 10.32 | 15.13 | 53.81 |
| 6 BR - House | 34.03 | 12.38 | 0.00 | 46.41 | 34.03 | 12.38 | 6.05 | 52.46 | 34.03 | 12.38 | 12.10 | 58.51 | 34.03 | 12.38 | 18.16 | 64.57 |
| 7 BR - House | 40.82 | 14.85 | 0.00 | 55.67 | 40.82 | 14.85 | 7.26 | 62.93 | 40.82 | 14.85 | 14.52 | 70.19 | 40.82 | 14.85 | 21.78 | 77.45 |
| Multi-Family Residential | | | | | | | | | | | | | | | | |
| 1 BR - APT | 11.73 | 4.27 | 0.00 | 16.00 | 11.73 | 4.27 | 2.09 | 18.09 | 11.73 | 4.27 | 4.17 | 20.17 | 11.73 | 4.27 | 6.26 | 22.26 |
| 2 BR - APT | 14.07 | 5.12 | 0.00 | 19.19 | 14.07 | 5.12 | 2.50 | 21.69 | 14.07 | 5.12 | 5.00 | 24.19 | 14.07 | 5.12 | 7.51 | 26.70 |
| 3 BR - APT | 16.88 | 6.14 | 0.00 | 23.02 | 16.88 | 6.14 | 3.00 | 26.02 | 16.88 | 6.14 | 6.00 | 29.02 | 16.88 | 6.14 | 9.01 | 32.03 |
| 4 BR - APT (2) | 20.26 | 7.38 | 0.00 | 27.64 | 20.26 | 7.38 | 3.60 | 31.24 | 20.26 | 7.38 | 7.21 | 34.85 | 20.26 | 7.38 | 10.81 | 38.45 |
| Flat - Rate Commercial Customers - Varies | | | | | Flat rates increase 13.05% 01/01/06 | | | | Flat rates increase 11.545% 07/01/07 | | | | Flat rates increase 10.35% 07/01/07 | | | |
| Metered Commercial (3) | Base | Infr. | PCE/ TCE | | Base | Infr. | PCE/ TCE | | Base | Infr. | PCE/ TCE | | Base | Infr. | PCE/ TCE | |
| | Base | \$/ccf | \$/ccf | | Base | \$/ccf | \$/ccf | | Base | \$/ccf | \$/ccf | | Base | \$/ccf | \$/ccf | |
| Comm. .75" | 15.77 | 0.490 | 0.233 | 0.00 | 15.77 | 0.490 | 0.233 | 3.50 | 15.77 | 0.490 | 0.233 | 7.00 | 15.77 | 0.490 | 0.233 | 10.50 |
| Comm. 1" | 23.65 | 0.490 | 0.233 | 0.00 | 23.65 | 0.490 | 0.233 | 5.25 | 23.65 | 0.490 | 0.233 | 10.51 | 23.65 | 0.490 | 0.233 | 15.76 |
| Comm. 1.5" | 31.53 | 0.490 | 0.233 | 0.00 | 31.53 | 0.490 | 0.233 | 7.00 | 31.53 | 0.490 | 0.233 | 14.00 | 31.53 | 0.490 | 0.233 | 21.01 |
| Comm. 2" | 39.43 | 0.490 | 0.233 | 0.00 | 39.43 | 0.490 | 0.233 | 8.76 | 39.43 | 0.490 | 0.233 | 17.51 | 39.43 | 0.490 | 0.233 | 26.27 |
| Comm. 3" | 55.19 | 0.490 | 0.233 | 0.00 | 55.19 | 0.490 | 0.233 | 12.26 | 55.19 | 0.490 | 0.233 | 24.51 | 55.19 | 0.490 | 0.233 | 36.77 |
| Comm. 4" | 70.96 | 0.490 | 0.233 | 0.00 | 70.96 | 0.490 | 0.233 | 15.76 | 70.96 | 0.490 | 0.233 | 31.52 | 70.96 | 0.490 | 0.233 | 47.28 |
| Comm. 6" | 102.60 | 0.490 | 0.233 | 0.00 | 102.60 | 0.490 | 0.233 | 22.77 | 102.60 | 0.490 | 0.233 | 45.53 | 102.60 | 0.490 | 0.233 | 68.30 |
| Comm. 8" | 134.06 | 0.490 | 0.233 | 0.00 | 134.06 | 0.490 | 0.233 | 29.75 | 134.06 | 0.490 | 0.233 | 59.50 | 134.06 | 0.490 | 0.233 | 89.25 |
| Comm. 10" | 165.60 | 0.490 | 0.233 | 0.00 | 165.60 | 0.490 | 0.233 | 36.75 | 165.60 | 0.490 | 0.233 | 73.50 | 165.60 | 0.490 | 0.233 | 110.25 |

(1) Rates effective each July 1 will be adjusted for changes in the Consumer Price Index

(2) plus 20% for each additional bedroom

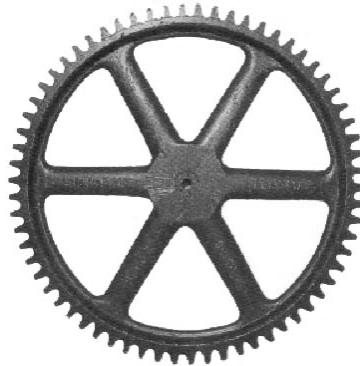
(3) Monthly total for metered commercial customers depends on amount of water used

(4) Established City Utility Discounts apply to above rates

City of Lodi

Council Shirtsleeves Session

Funding of PCE/TCE Groundwater Remediation



July 20, 2005

Reed V. Schmidt, Principal Consultant
Tatiana Olea, Financial Analyst

BARTLE WELLS ASSOCIATES





What is PCE/TCE Remediation

- PCE/TCE -- chemical solvents used by drycleaners and other industries to remove grease, paint and other substances. It is also an ingredient in adhesives, typewriter correction fluids, and spot removers.
- PCE/TCE remediation is the removal of these chemicals from the soil and groundwater supply through additional treatment





All-In Costs of PCE/TCE

- Net cost of implementing remediation plan is estimated to be \$45.7 million and includes capital, operating, legal expenses, and settlements due to other parties less settlement revenues due to the City
- Above costs include pay back of past expenses (total \$12.2 million, which includes \$1.9 million of expenses owed to the sewer utility)





How to Pay for PCE/TCE Remediation - Which Utility Should Pay?

- Evaluated water and sewer utilities
- Concluded to use water utility
- Water utility results in lower rate impacts than sewer





Reasons Water Utility Should Pay PCE/TCE Remediation

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- Nexus
 - Direct benefit to water users from remediation of PCE/TCE
 - Remedial action order finds source of contamination could also have been direct release to subsurface
- Fiscal position of utilities
 - Sewer system has existing debt
 - Existing debt requires meeting coverage and other covenants which requires higher rates





Rate Increase Alternatives

- Three rate alternatives were considered:
 - Pure rate funding on a pay-as-you-go annual basis
 - Modified smooth pay-as-you-go, use of cash and reserve from rate increases
 - Long-term financing, use of cash from rate increases plus revenue bonds
- BWA recommends the modified pay-as-you-go alternative
 - Minimizes long-term costs
 - Minimizes annual rate increases
 - Provides predictable rates





Recommended Alternative

- Use cash from settlements and rate increases (no borrowing)
- Re-pay accrued expenses
- Increases are phased-in
- Rates for 3-bedroom home
 - January 1, 2006 add \$3.50 (\$30.33/month)
 - July 1, 2006 add \$3.50 (\$33.83/month)
 - July 1, 2007 add \$3.50 (\$37.33/month)
 - Adjustment each July 1 to account for changes in Consumer Price Index





Next Steps

- Approve rates for public notice and authorize mailing of Prop. 218 notice
- 45-day waiting period (begins on date of mailing)
- Public hearing on proposed rates on September 21, 2005
- Implementation of first rate change on January 1, 2006





Rate Survey

Lodi Water Rate Survey

| Agency | Est. Monthly Bill |
|---------------------|-------------------|
| | Current |
| City of Lathrop | \$48.92 |
| City of Escalon | 33.18 |
| City of Manteca | 31.35 |
| City of Stockton | 29.90 |
| City of Tracy | 26.85 |
| City of Lodi | 26.83 |
| City of Ripon | 19.87 |



Discussion & Questions

